

## Message Text

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73

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

OPIC-03 /103 W

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R 072045Z JUL 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 769

INFO AMCONSUL GUAYAQUIL

C O N F L I D E N T I A L QUITO 4823

E.O. 11652: GDS

TAGS: ENRG PFOR EC

SUBJ: GULF STOPS DEPOSITS TO BRING PRESSURE ON GOE

REF: QUITO 4629

1. SUMMARY: LOCAL GULF MANAGER JACK O'BRIEN REPORTED TO EMBASSY THAT GULF IS NOW SIX MILLION DOLLARS IN ARREARS ON DEPOSITS FOR PREVIOUS SHIPMENTS AND IS PURPOSELY TAKING A CALCULATED RISK OF SEIZURE OF FORCE A SETTLEMENT WITH THE GOE. O'BRIEN DOES NOT SHARE OPTIMISM OF TEXACO OFFICIALS ABOUT LAST WEEK'S MEETING WITH MINISTER OF NATURAL RESOURCES VARGAS. END SUMMARY.

2. LOCAL GULF MANAGER JACK O'BREIN CALLED ON AMBASSADOR JULY 6 TO REPORT STATUS AND RATIONALE OF GULF'S SUSPENSION OF DEPOSITS ON PRIOR GULF SALES. O'BRIEN EXPLAINED THAT IN VIEW OF FAILURE TO GET GOE AGREEMENT ON ANY SHORT-OR LONG-RANGE TEXACO-GULF PROPOSALS TO IMPROVE ECONMICS OF THE OPERATION, GULF HAD SUSPENDED DEPOSITS JUNE 21 AND TO DATE HAD MISSED TWO DEPOSITS TOTALING SIX MILLION DOLLARS. GULF IS GIVEN 120 DAYS TO DEPOSIT THE INCOME ON A SALE TO ANY THIRD PARTY, AND IF IT  
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CONTINUES TO WITHHOLD DEPOSITS ITS DEBTS TO THE GOE WILL

RISE TO ABOUT \$50 MILLION WITHIN THE NEXT 120 DAYS. TEXACO, O'BRIEN EXPLAINED, DOES NOT HAVE THIS LEVERAGE WITH THE GOE SINCE IT HAS A FIFTEEN-DAY DEPOSIT PERIOD ON ITS "INTERNAL" SALES TO ITS OWN REFINERIES. TEXACO COULD, HOWEVER, SUSPEND PRODUCTION.

3. O'BRIEN SAID GULF HAD ANTICIPATED THAT HIS ACTION COULD BRING ABOUT THE NATIONALIZATION OF GULF PROPERTIES IN ECUADOR. BUT SINCE GULF IS ACTUALLY LOSING MONEY ON ITS U.S. BOOKS, HE SAID, GULF IS WILLING TO TAKE THIS RISK TO FORCE THE GOE TO REACH SOME AGREEMENT THAT WILL IMPROVE THE ECONOMICS OF GULF'S OPERATIONS IN ECUADOR. GULF HAS NOT YET RECEIVED ANY FORMAL WARNING REGARDING THE DEPOSIT SUSPENSION FROM THE MINISTER OF NATURAL RESOURCES, ALTHOUGH CENTRAL BANK OFFICIALS HAVE MADE INFORMAL INQUIRIES TO GULF EMPLOYEES. O'BRIEN SAID THAT HE ANTICIPATES A WARNING NOTICE FROM VARGAS SOON, AND POSSIBLY MINISTRY REFUSAL TO LOAD AN UPCOMING GULF SHIPMENT JULY 10. O'BRIEN SAID HE COULD NOT PREDICT THE REACTION OF HIS SUPERIEORS IN GULF TO SUCH PROSPECTIVE GOE ACTION, BUT HE PERSONALLY FELT IT MIGHT BE ADVANTAGEOUS TO MAKE ANOTHER PRESENTATION OF TEXACO-GULF GRIEVANCES TO THE SUPREME COUNCIL. O'BRIEN AGREED WITH AMBASSADOR THAT IT IS POSSIBLE THAT THE DEPOSIT SUSPENSION COULD BE LIMITED TO THE AMOUNT OF

CEPE'S OUTSTANDING DEBTS (ABOUT \$14 MILLION).

4. O'BRIEN COMMENTED THAT HE DOES NOT SHARE THE OPTIMISM OF TEXACO OFFICIALS REGARDING THEIR JUNE 27 MEETING WITH MINISTER OF NATURAL RESOURCES VARGAS (REFTEL. SHIELD'S APPROACH TO VARGAS, SAID O'BRIEN, WAS TO ATTEMPT TO GET THE GOE TO GIVE ECONOMIC PARAMETERS FOR A ONE-YEAR PROGRAM (SINCE THE LONG-RANGE INVESTMENT PLAN PRESENTED TO THE GOE IN MAY HAS BECOME STALLED IN THE INTER-INSTITUTIONAL COMMITTEE). TWO DAYS AFTER THAT REPORTEDLY "POSITIVE" MEETING WITH VARGAS, TEXACO AND GULF EXECUTIVES MET WITH THE CHAIRMAN OF THE MINISTRY OF NATURAL RESOURCES ADVISORY COMMITTEE, CARLOS MARAMILLO (WHO IS VARGAS' PROTEGE AND IS EFFECTIVELY IN CHARGE OF THE INTER-INSTITUTIONAL COMMITTEE), TO DISCUSS DETAILS OF CEPE'S PARTICIPATION IN THE TEXACO-GULF OFFTAKE AGREEMENT. JARAMILLO WENT INTO A LONG DIATRIBE ABOUT TEXACO-GULF'S

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OPERATIONS IN ECUADOR AND SAID THE TEXACO-GULF REQUEST FOR A 20 PERCENT ANNUAL RATE OF RETURN (AND CONCURRENTLY A DECREASE IN GOVERNMENT TAKE) WAS UNACCEPTABLE. O'BRIEN SUSPECCTS THAT JARAMILLO'S STRATEGY IS TO AWAIT AN INCREASE IN WORLD MARKET PRICE OF ORIENTE CRUDE AND THEN CLAIM TEXACO-GULF HAS ADEQUATE PROFIT MARGIN TO ALLOW FURTHER INVESTMENT.

5. COMMENT: GULF'S WILLINGNESS TO FORCE CONFRONTATION WITH

THE GOE IS CLEARLY DUE TO GULF'S \$50 MILLION ADVANTAGE ON PREVIOUS SALES, COVERING APPROXIMATELY SOMEWHAT LESS THAN HALF OF GULF'S BOOK VALUE IN ECUADOR. GULF MAY BE ENCOURAGED BY THE HISTORICAL PRECEDENTS--SUSPENSION OF PRODUCTION IN MID-1975 AND SUSPENSION OF DEPOSITS IN EARLY 1976--TO BELIEVE THAT SUCH TACTICS CAN FORCE THE GOE TO NEGOTIATE. WE ASSUME THAT TEXACO WILL TAKE A MORE CONSERVATIVE APPROACH IN ITS DEALINGS WITH THE GOE, BECAUSE WE BELIEVE TEXACO IS DOING BETTER FINANCIALLY IN THE CONSORTIUM, AND BECAUSE THE WITHHOLDING OF DEPOSITS FROM RECENT SALES HAPPENS TO GIVE TEXACO MUCH LESS LEVERAGE OVER THE GOE THAN GULF (AS EXPLAINED IN PARAM 2, ABOVE).

6 GULF IS PLAYING A DANGEROUS GAME, ESPECIALLY IF IT EVENTUALLY WITHHOLDS MORE THAN THE \$14 MILLION OWED IT BY CEPE. ITS ACTIONS COULD GIVE VARGAS AN EXCUSE TO TAKE OVER GULF'S HOLDINGS, NOT AS A NATIONALIZATION BUT AS PENALTY FOR AN ALLEGED ILLEGAL ACTION. IF THAT WERE TO OCCUR, GULF WOULD SURELY CHARGE CONFISCATION AND THE USG WOULD END UP WITH A MESSY CASE OF ESPOUSAL.  
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